



PARTICIPANTS INCLUDED: Stuart Allen, CEO, LatinFinance, Andre Sa, CFO, Grupo Los Grobo, Fernando Galli, Director, MSU, Charlie Boero, CFO, Adecoagro, Sebastien Chatel, Managing Director, Co-head of Latam ECM, Merrill Lynch / Bank of America, Hans Lin, Managing Director, Merrill Lynch / Bank of America, Eduardo Vidal, Managing Partner, Greencapital, Guilherme Steagell, Managing Director - Investment Banking, Morgan Stanley, Alejandro de Nevares, Partner, Columbus Merchant Banking, Richard Ferguson, Research Analyst, Nomura, Ricardo Veirano, Partner, Veirano Advogados, Graham Dallas, Head of Business Development - Americas, London Stock Exchange, David Royce, Partner, Ernst & Young

Agribusiness Equity Finance Roundtable

The Agribusiness Equity Finance Roundtable in Sao Paulo gathered together some of the largest Brazilian and Argentine companies from the sector. With leading bankers, analysts, lawyers and other advisers they discussed some of the new business models and practices in their industry, the changing landscape for agribusiness in Latin America and the world, the global opportunities to leverage their expertise, and the changing relationship between the industry and the capital markets

Discussions focused on the different strategies Latin American agribusiness companies can use to raise the capital they need to grow, while also examining the recent Latin American listings on the London Stock Exchange. The discussions served as the foundation for the article below.

LatinFinance: Does the agribusiness sector or parts of it in Latin America have an innate global comparative advantage?

Richard: What we have with agriculture is the fact that the world has been globalizing in a number of sectors over the past two decades – for example, western manufacturing moved to China and IT services has largely moved to India. Now we see the same thing happening in agriculture. The big beneficiaries are Argentina and Brazil, Russia and Ukraine, and maybe to a lesser extent Kazakhstan. These countries are taking advantage of their ability to access both human capital and physical capital in the form of arable land. With current developments in know how and technology it is possible to extract real economies of scale and to cultivate several hundreds of

thousands of hectares under one management. That can only happen in Latin America or Central & Eastern Europe.

Andre Sa: We believe that there is an imbalance between demand and supply for food in the world - and for sure the supply should come from Argentina and Brazil and also perhaps from Russia and Ukraine. The Chinese people are not going to step back and start to eat what they used to eat five or six years ago. So we strongly believe that the demand will remain strong for the coming years.



Argentina has its own challenge in that it's hard to predict what is going to happen with the government but on the other hand, I think agriculture is a very strategic sector for the country. And I think that the big challenge for the next few years is going to be credit and capital. The sector is quite leveraged at present and, as you plant today and harvest in 5 months, there's no way to be different.

Guilherme: If you look at land supply, there's plenty of arable land that has not been used so far, so there is plenty of space to grow. Most of this space is in the emerging economies but emerging economies have infrastructure problems so ramping up supply will be a challenge. On the other hand, there is an increasing focus on security of supply, and a number of national agencies are looking very seriously at that – and doing

The Equity Capital Markets Roundtable was underwritten by sponsors but was moderated and edited by the Special Projects team at LatinFinance

transactions in order to secure supply. So this is a very positive factor for the industry in the medium to long term.



Charlie: We, the players of this sector, have to work and see how physically to move the goods from one place, where they are being produced, to the places where they are being consumed.

And apart from that I think there are two other main issues that we need to have a closer look at: first the access to capital, because we are based in emerging markets it is more difficult for us to get money efficiently, and secondly protectionism, the

policies that the demand countries have to protect their internal production.

Richard: I try not to see it as a demand issue at all. Demand increases consistently and gradually but the supply response has been weak. Russia has a target of going from 100 million tons of grain up to 160 million tons of grain. That 60 million tons of extra grain will require around US\$12-18 billion worth of investment. Where does that come from? It's not going to come from a US\$200mn market cap stock. So we need to see consolidation, and scale.

Ricardo: I think we are going to see a move like that and some consolidation will take place but over the coming years. I see some consolidation already happening and more activity in the market. Who knows, maybe the consolidation wave will take place in six months, a year or five years down the road. Right now things are looking bleak, but there are people and companies who see opportunity. At the end of the day they could take advantage and be very successful in a market like this, but they need to find the right bankers to support and finance them. These bankers, however, will not be the people who are looking for results in a very short term.

Sebastien: One thing that clearly stands out when you compare agribusiness to other commodity sectors is the fragmentation of this industry. It is ripe for consolidation. You know, 4, 5 big players. You need to have much more consolidation in the sector which will help the sector access much needed capital.

Alejandro: Agreed – there is a need, and an opportunity for real national champions to emerge in this industry. Argentina and Brazil can benefit from such a development, because these are truly strategic industries. And although it will take longer, you can imagine global players, hedged across climate zones and national boundaries – something like Vale. There is capital available for the industry. We have seen big private equity investments recently, and in the Middle East, for example, there is more capital available. But bigger scale would help.

Hans: I think the private sector can also have an important role to play in providing capital for the infrastructure needed to support expanded production. If you look at infrastructure in Brazil, one of the biggest investors is Vale and exactly for the reason that Sebastian mentioned. Vale is the biggest mining company in Brazil and a consolidated company with a \$50 billion dollar market cap. In the agricultural sector you don't have that and I think that is what is missing right now, and what will come.

Guilherme: In the near term financing for the producers is going to be difficult, for example agents are going to be less willing to supply capital. The suppliers for the industry are also going to be in very tough periods, so they are not going to be able to finance producers in most cases. And if you look at the traders, the traders will be capitalized but because of the difficulties to access credit they will also not finance much of what they used to do.

If you look at what producers did [in 2008] they did not sell, they did not hedge and sell ahead 70% of their production which is what they usually do, because they expected the prices to be up, they didn't hedge. Having paid the highest prices for inputs, fertilizers and so on, they are having to sell to depressed markets. I think what we are going to see a combination of factors that is quite destructive, short term. But permanent capital and equity could help address this problem.

Sebastian: I think if there's one fundamental issue in this business, that is, it should be more equitized than it is; precisely because it is risky and cyclical. Things can be very good over a month of cycle, but they can be awful over one year, so if you rely totally on debt capital markets or bank financing you can get destroyed. But unfortunately, although there are some really excellent businesses out there, the majority are not prepared for an IPO quite yet.



Guilherme: Yes, when it comes to funding, I think that we need to solve the average farm problem. Whereas I think there will be plenty of funding in the system the problem is who you are going to lend this money to and most of the money will be channeled to the most capitalized players. This means that the very top names which are already capitalized will have access to credit, maybe not as cheap as they thought but fairly cheap.

My concern is what is going to happen with the bulk of the economy, the bulk of the planted area which is the average-sized farms in Brazil. When you look at banks I think the banks will be out of the equation for the simple reason that the least efficient and the least profitable line for banks is rural financing. So again, we come to consolidation, scale, and equity.

LatinFinance: How do equity investors view the agribusiness sector compared to anything else?

Sebastian: I think right now equity capital markets are closed to pretty much anything. But it was, and it will be again a very interesting area for investment. On scale, there are two issues, the business issue where scale in and of itself is valuable and helpful to business dynamics, and then the capital markets issue. It doesn't really matter if we talk about Brazil or about London, in all markets there will be a much greater focus on liquidity.

Graham: I think it's going to be very important that whatever company reopens the market, the market must reopen with a benchmark successful transaction and scale is definitely going to be an element of that. I think we also have to get the best possible quality of issue, liquidity, and the widest possible access to a diverse range of investors. What is really needed is a company that can tick all the boxes, go into a major index and be irresistible to the buy-side. We know that investors like this sector because we are hearing demand in Europe from them. What I'd like to see is an agribusiness company that can meet these standards and execute a primary listing in London. I think they would be very well received indeed.



Guilherme: I think that there are pools of liquidity that are certainly interested in the sector in Brazil, there are pools of liquidity that are looking at private transactions that make perfect sense, but the valuation gap is sometimes something that you cannot breach. If people expect to do transactions at market prices, they will not happen for the most part, unless the company is in financial distress. But I do think that there are good names, good sound business models and pools of liquidity that have so far come primarily, from private equity funds. Quite frankly, I think as I mentioned before, the funding, the equity access for some players will be there and there will be opportunities in the equity markets. In the near term, we will see an approach that might not necessarily

be public transactions, but private placements or something similar.

Alejandro: We have seen private equity transactions done in the last 14 months, some of them very large. And we have strong interest in the sector from other PE investors.

Graham: Yes, we see Middle East and European demand, for example from pension funds, ready to take very long term positions. But at the moment the right vehicles aren't available on public markets – yet.

LatinFinance: The agribusiness sector comes with a large degree of peculiarities – integrating crop cycles and capital expenditure, understanding the risks of agricultural product in an energy market and so on. So to what degree is financing for agribusinesses influenced by human capital amongst financial institutions, for example the buy-side research coverage?

Sebastian: As for understanding agribusiness, the broader protein, sugar, ethanol segments are pretty deeply covered already by analysts.

Richard: When you talk to investors, some of them are afraid of the agriculture sector. Investors are used to quarterly earnings statements and the annual speech by management. Quarterly learning statements and agriculture companies are a complete contradiction in terms. So it will be an education process.

Sebastian: If a company by definition is big enough [to come to] the market and if they have a sensible business model and good management, if they articulate their strategy, that'll be seen as an extremely interesting story. The risk is you have a situation with everybody representing the same model, it's very fragmented, all trying to do the same thing, coming to market because they need capital and they then are willing to go at low valuations, which would impact the whole market. But the human capital, the management expertise, can be the differentiator in this industry just as it in other sectors. That's what investors will be looking for – quality not just in the land assets but in the people who manage those assets and extract value efficiently.

London Stock Exchange

Graham Dallas, Head of Business Development
Phone: +44-20-7797-4055
Email: gdallas@londonstockexchange.com
Website: www.londonstockexchange.com



London
STOCK EXCHANGE